



September 13, 2010

AGENDA ITEM 2

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** August 2010 Policy Subcommittee Report
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION** a. Revision of Policy on Global Fixed Income Program
- IV. ANALYSIS:**

Background

The Policy Subcommittee met on August 16, 2010 to review proposed revisions to the Global Fixed Income Program policy. In addition, the Investment and Risk Management Policies were scheduled for review as part of the Rolling Review Project. These policies were deferred to the December 2010 Policy Subcommittee meeting.

The revised Global Fixed Income Program policy is attached. Unless otherwise noted, the revised policy is presented as a black-lined version from the last adopted policy by the Investment Committee. The black-line uses strike-out to indicate deletions and double underline to indicate additions. Single underline does not indicate a change; rather it indicates that the term is defined in the glossary.

Revision of Policy on Global Fixed Income Program

The Global Fixed Income Program Policy covers both the internally managed domestic and externally managed international Fixed Income Programs.

In the past, the fixed income portfolios were both a diversifier and an alpha source that capitalized on excess liquidity. After discussions with the Investment Committee and the Asset Allocation Unit, a change in Global Fixed Income's role is required.

Staff reviewed the policy and recommended a reduction in ranges and flexibility of active management parameters by reducing the targeted alpha and risk by 50 percent.

The Subcommittee recommends approval of the revised Global Fixed Income Program Policy.

V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first to pay benefits and second to minimize and stabilize contributions.

VI. RESULTS/COSTS:

The results of this item will provide CalPERS with enhanced efficiencies and ability to manage the overall portfolio. The revised policies will provide a foundation for compliance, accountability, and transparency.

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